



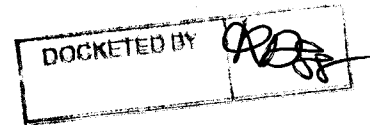
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BEFORE THE ARIZONA CORPORATION COM.

ORIGINAL

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COMMISSIONER
PAUL NEWMAN
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COMMISSIONER

Arizona Corporation Commission
DOCKETED
JAN 18 2012



IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, AND TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

Docket No. E-01345A-11-0224

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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimonies of Jodi A. Jerich and Frank W. Radigan in support of the Proposed Settlement Agreement of January 6, 2012 in the above-referenced matter.

RESPECTFULLY SUBMITTED this 18th day of January, 2012.

Daniel W. Pozefsky
Chief Counsel

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2 of the foregoing filed this 18th day
3 of January, 2012 with:

4 Docket Control
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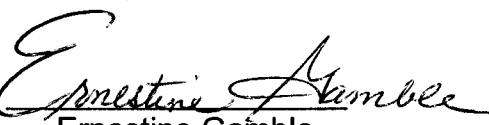
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11 Ernestine Gamble

ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO. E-01345A-11-0224

**TESTIMONY IN SUPPORT
OF SETTLEMENT AGREEMENT**

OF

JODI A. JERICH

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 18, 2012

TABLE OF CONTENTS

1		
2		
3	INTRODUCTION.....	1
4	THE SETTLEMENT PROCESS.....	2
5	SUMMARY.....	5
6	2009 SETTLEMENT AGREEMENT.....	6
7	SETTLEMENT PROVISIONS.....	8
8	PUBLIC INTEREST.....	11
9	LFCR.....	14
10	OPT OUT RATE.....	17
11	FOUR CORNERS.....	19
12	LOW INCOME RATEPAYERS.....	19
13	RATE FREEZE.....	20
14	90/10 SHARING.....	20
15	REVISED BILL FORMAT.....	21

INTRODUCTION

Q. Please state your name, occupation and business address for the record.

A. My name is Jodi Jerich. I am the Director of the Arizona Residential Utility Consumer Office (RUCO). My business address is 1110 W. Washington Street, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. My educational background and qualifications are set forth in Exhibit A.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain RUCO's support of the Settlement Agreement.

Q. Did you represent RUCO during the previous APS rate case negotiations and ultimately provide testimony in support of that Settlement Agreement which resulted in Decision No. 71448?

A. Yes.

1 **Q. Have you in your role as RUCO Director, participated in other**
2 **settlement negotiations?**

3 A. Yes. As Director, I have participated in settlement negotiations in other
4 matters that have come before the Corporation Commission.¹ The majority
5 of these negotiations have resulted in RUCO reaching an accord with the
6 utility and the other settling parties and signing a settlement agreement. On
7 the other hand, I have walked away from settlement talks when negotiations
8 produced a result that RUCO found was not in the best interest of
9 residential ratepayers. RUCO does not enter into settlements lightly.
10 RUCO will not agree to settle simply as a means of avoiding litigation.
11 However, in this matter, negotiations did produce reasonable and fair terms
12 that RUCO can and does support.

13
14
15 **THE SETTLEMENT PROCESS**
16

17 **Q. Was the negotiation process that resulted in the Settlement**
18 **Agreement a proper and fair process?**

19 A. Yes. The Settlement Agreement is the result of numerous hours of
20 negotiation and a willingness among the parties to compromise. The

¹ 2008 APS Rate Case, Docket No. E-01345A-08-0172 (Decision No. 71448); 2010 Qwest/CenturyLink Merger, Docket No. T-04190A-10-0194 (Decision No. 72232), 2010 SW Gas Rate Case, Docket No. G-01551A-10-0458 (Decision No. 72723). Goodman Water Rate Case, Docket No. W-02500A-10-0382 (pending), Arizona-American rate case, Docket No. A-01303A-10-0448 (pending).

1 negotiations were conducted in a fair and reasonable way that allowed
2 each party the opportunity to participate. All intervenors had an
3 opportunity to participate in every step of the negotiation. Notice for each
4 scheduled meeting was sent to all parties electronically. Persons were
5 able to participate via teleconference if necessary. Furthermore, APS
6 created a secure website that allowed all parties to view all documents
7 submitted as part of settlement negotiations. All parties were allowed to
8 express their positions fully.

9
10 On December 9, 2013, Staff filed a Notice of Status and Preliminary Term
11 Sheet which reflected the terms of the negotiations up to that date. The
12 Commission held a Special Open Meeting on December 16, 2011 to
13 review the Preliminary Term Sheet and have the opportunity to ask
14 questions of any of the intervenors. RUCO, along with the other parties,
15 attended the Special Open Meeting and answered questions posed by the
16 Commissioners.

17
18 By RUCO's count, 22 parties signed the Settlement Agreement. These
19 signatories represent a wide range of interests from agricultural interests,
20 governmental entities, business and retail interests, industrial interests,
21 low income advocates, union representatives, Commission Staff, AARP
22 and RUCO.

1 **Q. Did all the parties sign the proposed Settlement Agreement?**

2 A. No. At the very end, a handful of parties choose not to sign the
3 Agreement. These parties have the opportunity to file testimony to explain
4 their reasons why they ultimately did not sign the Settlement Agreement.
5

6 **Q. Why is a negotiated settlement process an appropriate way to**
7 **resolve this matter?**

8 A. By its very nature, a settlement finds middle ground that the parties can
9 support. All the parties that participated in the settlement talks were
10 sophisticated parties well seasoned in the Commission's regulatory
11 processes and veterans of the negotiating table. All parties except Ms.
12 Cynthia Zwick were represented by counsel. The fact that so many
13 parties representing such varied interests were able to come together to
14 reach consensus illustrates the balance, moderation and compromise of
15 the document.
16

17 Settlement negotiations began only after each party had the opportunity
18 to analyze the Company's Application, file its Direct Testimony and read
19 the Direct Testimony of other Intervenors. Of course, the Settlement
20 Agreement in no way eliminates the Commission's constitutional right and
21 duty to review this matter and to make its own determination whether the
22 Settlement is truly balanced and the rates are just and reasonable.
23

EXECUTIVE SUMMARY

Q. Please summarize your testimony.

A. The Settlement Agreement reflects an outcome that is fair to both the consumer and the Company and is in the public interest. Furthermore, this is a comprehensive Settlement Agreement. Its terms settle a wide range of issues that were of significant interest to several of the Intervenors.

RUCO supports this Agreement in its entirety because it contains numerous benefits to the consumer including an overall zero dollar base rate increase (and even a modest overall bill decrease in 2012) while keeping the Company on a path of financial health as set forth in the previous Settlement Agreement. Most notably, this proposed Settlement Agreement resolves the contentious and hotly debated issue of "decoupling". The proposed Settlement Agreement provides the Company with the "Lost Fixed Cost Recovery" ("LFCR") mechanism plus a viable "opt out" rate for residential customers who do not wish to be subject to the LFCR. The LFCR allows APS to recover lost revenues that are solely and directly attributable to lost sales due to Commission-approved energy efficiency programs. The opt out rate allows residential customers to choose an alternative base rate and not be subject to the

1 annually increasing LFCR. This rate design flexibility is in the public
2 interest for several reasons which will be set forth in greater detail below.

3
4 **THIS SETTLEMENT AGREEMENT BUILDS ON THE PREVIOUS**
5 **AGREEMENT WHILE ADDRESSING NEW CHALLENGES**
6

7 **Q. What were RUCO's priorities during the last rate case (Docket No. E-**
8 **01345A-08-0172)?**

9 A. As I stated in my testimony in support of the 2009 APS Settlement
10 Agreement:

11
12 "RUCO is deeply concerned with APS's continuous marginal credit
13 rating and constant claims that a downgrade to "junk bond" status is
14 imminent...The Settlement Agreement is a comprehensive strategy
15 that provides a guiding hand for the utility to improve its financial
16 condition in both the short and long term...The Settlement
17 Agreement helps to align the interests of stockholders and
18 ratepayers, and it sets forth a reasonable and rational strategy that
19 is likely to improve APS's financial metrics and, in the long run,
20 stem the constant flow of rate increases that would be likely to
21 occur if the Commission were simply to continue to increase rates
22 incrementally without addressing the root of the Company's weak
23 financial position." (Jerich Testimony in Support of the Settlement
24 Agreement, July 1, 2009, pp. 9, 11)
25

26
27 **Q. Does RUCO believe the 2009 Settlement Agreement has had a**
28 **positive effect?**

29 A. Absolutely. APS's credit rating has been upgraded to BBB with a positive
30 outlook from BBB-. RUCO believes this is due in large part to APS's
31 compliance with the terms of the 2009 Settlement Agreement such as (1)

1 issuing the first tranche of \$250 million equity infusion out of the total
2 commitment of \$700 million equity infusion by December 31, 2014
3 (Section 8.1), (2) achieving a Test Year 54% adjusted debt/adjusted total
4 capitalization ratio by "striving to reduce total debt from 57% to 52%"
5 (Section 8.3) ,and (3) reducing expenses to total \$150 million at the end of
6 five years. (Section 7.1).

7
8 Mr. Hatfield's direct testimony on behalf of APS discusses APS's improved
9 financial condition since the last rate case and its compliance with the
10 terms of the 2009 Settlement Agreement.

11
12 **Q. Must APS continue to comply with the terms of the previous**
13 **Settlement Agreement as ordered by Decision No. 71448?**

14 **A.** Yes. Decision No. 71448 approved the terms of the 2009 Settlement
15 Agreement which established the five year "Plan Term" which ends
16 December 31, 2014. The Settlement Agreement in this rate case must be
17 read in harmony with the provisions of the 2009 Settlement Agreement.

18
19 **Q. Do you believe the terms of this Settlement Agreement are**
20 **consistent with the priorities articulated by RUCO in the previous**
21 **rate case?**

22 **A.** Yes. RUCO finds that this Settlement Agreement has several
23 components that benefit the utility and allow it to maintain its

1 creditworthiness. In summary, these include a 10.0% authorized ROE,
2 the Lost Fixed Cost Recovery mechanism, the inclusion of Four Corners in
3 rate base should the Commission approve and APS acquire Southern
4 California Edison's interest and the creation of the Environmental
5 Improvement Surcharge. The Settlement eliminates the current EIS that
6 collects ratepayer money to pay for environmental improvements up front
7 and is treated as CIAC.² The new EIS reimburses APS for shareholder
8 funds used for environmental improvements and is treated as revenues.

9
10 **SETTLEMENT PROVISIONS**

11
12 **Q. In summary, what are the benefits to the residential consumer?**

13 **A.** The benefits to the residential consumer are:

- 14 • A zero dollar base rate increase. (1.5)
- 15 • A zero dollar bill impact (or slight decrease) for the remainder of 2012.
16 (1.5)
- 17 • APS agrees not to raise base rates prior to July 1, 2016. (1.5)
- 18 • A lower base rate of fuel to recognize lower fuel costs. (7.1)
- 19 • The probability of a lower PSA costs if APS's acquisition of SCE's
20 interest in Four Corners is approved and APS makes off-system sales
21 of electricity generated from Units 1-3 prior to their closure. (10.2)

² See Decision No. 69663 (Docket No. E-01345A-05-0816)

- 1 • The application of interest on overcollections of the PSA (in lieu of the
2 90/10 sharing provision). (7.3)
- 3 • Periodic audits of APS's fuel procurement practices. (7.4)
- 4 • Establishment of a limited mechanism (the "LFCR") to recover lost
5 revenues directly and solely attributable to the Company's energy
6 efficiency and distributed generation goals as mandated by the
7 Commission. (Section IX)
- 8 • Capping the amount the LFCR may collect from residential ratepayers
9 to 1% year over year of total company revenues. (9.4)
- 10 • Ability to opt out of paying the annually increasing LFCR by selecting a
11 fixed rate in lieu of the LFCR that is approximately 1% - 2% higher than
12 the current base rate. (9.2, 9.8)
- 13 • Allowing customers to change from the LFCR to the opt out rate (within
14 certain parameters) to understand which alternative works better for
15 them. (9.12)
- 16 • A Company sponsored education and outreach program to inform
17 customers about the LFCR and their chose between the LFCR and the
18 opt out rate. (9.9)
- 19 • Withdrawal of APS's request to recover the cost of chemicals through
20 the PSA. (7.2)
- 21 • Deferral of a portion of any property tax rate increases with no interest
22 applied to the deferrals, but full recognition of any property tax rate
23 decrease. (12.1)

- 1 • \$5 million of shareholder funds to augment APS's bill assistance
- 2 program.
- 3 • Stakeholder meetings subsequent to the rate case to develop
- 4 recommendations to the Commission on how to make the APS bill
- 5 easier to understand. (Section XVI)

6

7 **Q. In summary, what are the benefits to the Company?**

8 **A. The benefits to the Company are:**

- 9 • A 10.0% authorized ROE.
- 10 • Creation of the LFCR to allow the Company to recover lost revenues
- 11 associated with EE and DG programs. (9.2, 9.3)
- 12 • 15 months of post test year plant in rate base. (3.1)
- 13 • The establishment of the Environmental Improvement Surcharge
- 14 adjuster. (Section XI)
- 15 • Elimination of the 90/10 sharing provision of the PSA. (7.3)
- 16 • Application of interest to any undercollection of the PSA. (7.3)
- 17 • Rate base treatment of the acquisition of SCE's interests in Units 4 & 5
- 18 at Four Corners should the Commission approve their purchase and
- 19 find the costs prudent. (Section X)

PUBLIC INTEREST

Q. How is the public interest satisfied by the Settlement Agreement?

A. At the most fundamental level, the settlement satisfies the public interest from RUCO's perspective in that it provides a framework that provides for a zero dollar base rate increase, a zero dollar overall bill impact in 2012 while allowing the Company to maintain its financial health through enumerated benefits including the LFCR and inclusion of Four Corners in rate base.

The Settlement Agreement also satisfies the public interest by providing a fair and balanced approach to addressing the Company's lost revenue. RUCO believes that providing the Company a narrowly tailored mechanism to recover lost revenue directly and solely associated with Commission-mandated EE and DG programs while providing the ratepayer the ability to opt out of the LFCR with a slightly higher base rate is a reasonable solution to what is undoubtedly the most contentious issue in this case. The Company can meet whatever energy efficiency requirements the Commission sets through the LFCR without shifting the risks of the economy, weather and other factors on to the ratepayer.

RATE IMPACT

Q. What was RUCO's position in its direct case?

A. In its Direct Testimony, RUCO recommended a 10.0% ROE and a zero dollar base rate increase. These positions have been incorporated into the Settlement Agreement.

Q. Does a zero base rate increase until 2016 translate into a zero overall bill impact for that same period?

A. No it does not. The existing APS rate design includes several adjusters that adjust annually outside of any rate case. These adjusters, such as the Power Supply Adjuster (PSA), the Transmission Cost Adjuster (TCA), the Renewable Energy Surcharge (RES) and the Demand Side Management Adjuster Mechanism (DSMAC) will all adjust at their regularly scheduled times through 2016. The Settlement Agreement was able to achieve a zero base rate impact and a slight decrease in the overall bill because of the lower cost of fuel and the overcollected balance in the PSA. The Settlement Agreement reduces the base rate of fuel. It also defers resetting the PSA until February 2013 instead of resetting it concurrently with the implementation of new rates as in the previous rate case. It is this delay in the resetting of the overcollected balance of the PSA that allows the customers to continue to receive a PSA credit through February 2013. At that time, the PSA will be reset as it does every year.

1 **Q. Are there other provisions in the Settlement Agreement that may**
2 **affect the ratepayer's bill outside of the setting of the base rate?**

3 A. Yes. Section X of the Settlement Agreement provides for the possible
4 inclusion of the SCE interests in Units 4 and 5 at Four Corner if the
5 Commission approves APS's request to purchase this interest and the
6 Commission finds the transaction prudent. If that happens, the Company
7 will seek to include the costs as set forth in Section 10.2 in ratebase and
8 recover those costs through a Four Corners rate rider adjustment. Such
9 adjustment may not occur prior to July 1, 2013. The inclusion of APS's
10 additional interest in Units 4 and 5 in ratebase will increase the bill by
11 approximately \$2.08 per month for the average E-12 residential customer.
12 However, the additional increase in the bill for putting the Four Corners
13 plant into ratebase will likely be offset to some degree by any off system
14 sales APS makes from Units 1-3 until those units close. These sales will
15 affect the PSA calculation.

16
17 **Q. How does the new EIS adjuster impact the customer's bill?**

18 A. There will be no change. The rate set for the new EIS adjuster is the
19 same rate that is currently in place for the existing EIS.
20
21
22
23

1 **Q. How can the Commission better understand how the overall bill will**
2 **change if the Commission approves the Settlement Agreement?**

3 A. APS docketed a letter on January 9, 2012 explaining the bill impacts
4 associated with the Settlement Agreement. Attached to that letter are the
5 bill impact statements for various customer classes through 2013.

6
7 **RUCO'S ACCEPTANCE OF THE LFCR**

8
9 **Q. In light of RUCO's past opposition to full revenue decoupling and**
10 **even the limited decoupling proposal in the Southwest Gas**
11 **Settlement Agreement, why would RUCO support the LFCR in this**
12 **Settlement Agreement?**

13 A. RUCO has consistently stated that a decoupling mechanism is more
14 appropriate for an electric generation utility than a natural gas distribution
15 utility because energy efficiency programs have the ability to delay the
16 need to build more and very expensive plant including new electric
17 generating facilities and transmission lines.

18
19 RUCO supports the LFCR in this rate case because the LFCR (1) allows
20 recovery only for lost revenues directly and solely associated with APS's
21 Commission-mandated energy efficiency and distributed generation
22 programs, (2) cannot exceed 1% year over year of total company
23 revenues, and (3) includes a viable "opt out" rate for customers who elect

1 not to be subject to the LFCR adjuster. The LFCR is narrowly tailored to
2 capture only those lost revenues connected to EE and DG programs. The
3 Company has stated on the record that it does not need full revenue
4 decoupling in order to remain financially viable and meet its energy
5 efficiency obligations. *"Lost Fixed Cost Recovery can accommodate*
6 *whatever energy efficiency you authorize in the process. It may not be the*
7 *most robust, but it's a workable mechanism that we can live with."*³
8

9 The LFCR is different than the two decoupling alternatives proposed in the
10 Southwest Gas Settlement Agreement. RUCO did not support that
11 settlement agreement because it found neither decoupling options in the
12 best interest of ratepayers. Unlike full revenue decoupling, the LFCR
13 does not allow recovery for lost revenues connected to factors such as
14 home foreclosures, businesses closing their doors, the poor economy,
15 weather or other factors. And unlike the second decoupling proposal in
16 the Southwest Gas case, this LFCR does not shift the risk of lost revenue
17 due to the weather on to the ratepayer. Neither decoupling option was as
18 narrowly tailored as the LFCR in this Settlement Agreement. Neither
19 decoupling mechanism included an opt out rate.
20
21
22

³ Jeff Guldner, APS, Special Open Meeting to discuss APS settlement, 12/16,2011, p. 78.

1 **Q. Why has RUCO opposed decoupling mechanisms in the past?**

2 A. In previous rate cases, RUCO has opposed decoupling for several
3 reasons. First, RUCO has argued loudly that a decoupling mechanism
4 that constantly changes the customer's rates does not provide the correct
5 price signal to encourage conservation. RUCO has consistently voiced
6 the proposition that making a customer share a portion of their savings
7 due to their own efforts to reduce their bill is unfair and can even
8 discourage conservation. Second, RUCO has pointed out that while all
9 residential customers would be subject to the decoupling mechanism, not
10 all customers could participate, or participate fully, in DSM, EE and DG
11 programs. These customers include low usage customers, renters,
12 seniors, customers with limited incomes, and those customers who have
13 already implemented as many programs as practical to reduce
14 consumption. Finally, RUCO believes it is fundamentally unfair to have
15 customers cover the utility's lost revenues due to a poor economy, lost
16 sales due to home foreclosures, businesses that have closed their doors,
17 and extreme weather conditions. Such a mechanism inappropriately shifts
18 the risk of these factors away from the regulated utility that has an
19 opportunity to earn an authorized rate of return to the captive customer.

20
21 In light of Commission-mandated policies that require the utility to sell less
22 energy going forward while setting their rates on a historical test year,
23 RUCO has offered other alternatives to address the utility's revenue

erosion. These alternatives have included placing more of the fixed costs into the base rates and providing an ROE premium.

Q. What is the Opt Out Rate?

A. The opt out rate is an optional basic service charge, graduated by KWh monthly usage. It recovers only a small portion of fixed costs through an incremental increase in the basic service charge. It does not recover all fixed costs and is not a straight fixed variable rate design.

Q. Was the opt out rate a critical component in RUCO's support of the Settlement Agreement?

A. Absolutely. Without the opt out rate, it is highly unlikely RUCO would have signed the Settlement Agreement.

Residential customers who elect the opt out rate will agree to an increase to the basic service charge and that rate will remain fixed for the entire term of the Settlement Agreement. Alternatively, a customer who selects the opt out rate chooses to be subject to an annually increasing LFCR adjuster. RUCO believes this opt out rate provides rate stability and a better price signal to encourage reduced consumption. As shown in Attachment E to the Settlement Agreement, the opt out rate is approximately a 1% to 2% increase in a customer's bill. To further benefit the ratepayer, residential customers on any rate schedule (i.e., Time of

1 Use or Non Time of Use schedules), can stay on their preferred rate
2 schedule and still elect the opt out rate. The Company must perform
3 customer outreach to educate the customers of the LFCR and the opt out
4 rate. If a customer selects the opt out rate, the customer will not be
5 charged the opt out rate until the customers who select the LFCR are
6 charged. Finally, the LFCR Plan of Administration allows a residential
7 customer who has selected one option over the other has to switch to the
8 other option (within certain parameters) to provide maximum choice for the
9 consumer.

10
11 **Q. What are some other benefits to the opt out rate?**

12 A. The opt out rate has several benefits. First, the Commission has
13 witnessed the strong opposition to decoupling from ratepayers around the
14 state. Literally thousands of Arizona residents have voiced their
15 opposition to decoupling. The opt out rate provides customers with the
16 ability to not be subject to the LFCR. Furthermore, the customer can elect
17 to spend some time on both rates to see which one works better from their
18 own experience. Second, by having the LFCR and the opt out rate, APS
19 will be able to collect data on the number of customers participating in
20 either rate. This information will be helpful to the Commission going
21 forward as decoupling, in whatever form for whatever utility, is considered.
22 Third, this opt out rate can help the utility and the Commission achieve
23 good will among ratepayers.

POSSIBLE RATEBASE TREATMENT OF FOUR CORNERS

Q. Why does RUCO support inclusion of the acquisition of SCE's interests in Four Corners into rate base?

A. RUCO supported and continues to support APS's request to acquire SCE's interest in Four Corners. RUCO also supported a deferral order in that case. In RUCO's opinion, it makes sense to allow timely recovery for plant whose acquisition RUCO finds in the public interest and provides both a financial and environmental benefit to the ratepayer as well as a vitally needed economic driver for the Navajo Nation.

OTHER PROVISIONS

Q. Why does RUCO support applying the PSA and the DSMAC to low income ratepayers?

A. This provision was not part of RUCO's Direct Testimony. However, after reading Staff's testimony in support of applying these adjusters to these residential ratepayers and in the course of give and take in the negotiating process, RUCO supports the application of these adjusters to all residential ratepayers. Finally, RUCO notes that the application of these adjusters to low income customers was included in the Preliminary Term Sheet docketed December 9, 2011 which was the subject of a Special Open Meeting on December 16, 2011.

1 **Q. Why does RUCO support a base rate freeze until 2016?**

2 A. RUCO supported the 2009 Settlement Agreement that called for rates in
3 this case to remain in effect until December 31, 2014. RUCO, in its Direct
4 Testimony, did not consider extending this moratorium past the date
5 agreed to under the previous settlement. However, after reading Staff's
6 Direct Testimony and through the give and take of the negotiations, the
7 Company accepted the extension of the base rate freeze and RUCO finds
8 that that a stable base rate with the ability for the Company to remain
9 financially healthy through changes in its adjusters in the public interest.

10
11 **Q. Why does RUCO support the elimination of the 90/10 sharing
12 provision to the PSA?**

13 A. Again, RUCO supported the 2009 Settlement Agreement which retained
14 the 90/10 sharing provision and in our direct testimony did not agree with
15 the Company's request to eliminate it in this rate case. However, in the
16 process of give and take RUCO has agreed to support its elimination in
17 exchange for all the other ratepayer benefits that this Settlement
18 Agreement provides. RUCO also points out that as a substitute for the
19 90/10 sharing provision, the Settlement Agreement assesses interest
20 annually to the benefit of the ratepayer for any overcollection at a rate
21 equal to the Company's authorized ROE or APS's then-existing short term
22 borrowing rate, whichever is greater. The Settlement Agreement also
23 assesses interest annually in favor of the Company, for any

1 undercollection at a rate equal to the Company's authorized ROE or
2 APS's then-existing short term borrowing rate, whichever is less. RUCO
3 finds this mechanism a suitable alternative to the 90/10 sharing provision.
4

5 **Q. Does RUCO support making the APS bill easier for customers to**
6 **understand?**

7 A. Yes. RUCO has some specific ideas regarding the need to provide
8 transparent information on the RES and DSM adjusters to the public.
9 RUCO also has heard several complaints from customers over the
10 confusion of the line item detail of the unbundled elements of the bill.
11 RUCO will participate in the stakeholder work group as set forth in the
12 Settlement Agreement.
13

14 **Q. Does this conclude your testimony?**

15 A. Yes.
16
17

EXHIBIT A

Statement of Qualifications

**Jodi A. Jerich
Director
Arizona Residential Utility Consumer Office ("RUCO")**

Governor Brewer appointed me to serve as the Director of RUCO in February 2009. The Arizona State Senate found my qualifications met the statutory requirements found in Arizona Revised Statutes §40-462 and confirmed my appointment. As Director, I oversee and approve all testimony and briefs filed by RUCO. In consultation with my staff, I direct the public policy decisions of the office.

From 2003 through 2005, I was employed at the Arizona Corporation Commission as the Policy Advisor to Corporation Commissioner Mike Gleason. In that role, I advised the Commissioner on matters coming before the Commission. I was actively involved in the utility policy-making decisions of that Commissioner's office.

Except for the time I was employed by the Commission, from 1997 through 2008, I was employed at the Arizona House of Representatives. I held several positions during my tenure, eventually becoming Chief of Staff and Counsel to the Majority Caucus. Relevant to the question at hand, I advised Legislators on matters involving water, energy, Commission jurisdiction and utility security.

In 2006, when Governor Janet Napolitano appointed Barry Wong to fill the Commission seat vacated by Commissioner Marc Spitzer's appointment to the Federal Energy Regulatory Commission (FERC), I took a leave of absence from the Legislature for a short time in order to assist Commissioner Wong in establishing his office.

I am a Phi Beta Kappa graduate of Indiana University. I also have a law degree from Indiana University and am a member of the Arizona and Tennessee bars.

In my position as RUCO Director, I have filed testimony detailing RUCO's position on numerous matters in several dockets. Most recently, I provided testimony on RUCO's position on decoupling in the pending UNS Gas, Inc. rate case. (Docket No. G-04204A-11-0158)

ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO. E-01345A-11-0224

BEFORE THE

ARIZONA CORPORATION COMMISSION

TESTIMONY OF

FRANK W. RADIGAN

ON BEHALF OF THE

RESIDENTIAL UTILITY CONSUMER OFFICE

IN SUPPORT OF SETTLEMENT AGREEMENT

JANUARY 18, 2012

INTRODUCTION

**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS
FOR THE RECORD.**

A. My name is Frank Radigan. I am a principal in the Hudson River Energy Group, a consulting firm providing services regarding utility industries and specializing in the fields of rates, planning and utility economics. My office address is 237 Schoolhouse Road, Albany, New York 12203.

**Q. ARE YOU THE SAME FRANK RADIGAN WHO PREVIOUSLY SUBMITTED
TESTIMONY IN THIS PROCEEDING?**

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR ADDITIONAL DIRECT TESTIMONY?

A. I will discuss the technical aspects of the proposed Settlement Agreement ("Settlement") filed on January 6, 2012 in Docket No. E-01345-A-11-0224 -- Arizona Public Service Company's request for rate adjustment.

Q. DOES RUCO SUPPORT THE SETTLEMENT?

A. Yes, for the reasons that follow as well as the reasons set forth in the testimony of Residential Utility Consumer Office's ("RUCO") Director Jodi Jerich being filed contemporaneously with my testimony.

1 **Q. WHAT ARE THE MAIN TECHNICAL ELEMENTS THAT RUCO ENDORSES**
2 **IN THE SETTLEMENT?**

3 A. While I am sure that many people would point to the fact that there is no rate increase in
4 this case as a primary feature of the Settlement, I would note that the RUCO in its direct
5 case as well as several other parties showed that there was no need for a rate increase at
6 this time. In its direct case, RUCO showed that the instant rate case was more the matter
7 of the Arizona Public Service Company ("APS" or the "Company") advocating for a
8 simple increase in profits and several adjustment mechanisms that passed risk on to
9 ratepayers and helped protect its net income. For example, in its direct case, APS sought
10 a very generous 11% return on equity. The Company also sought to include chemical
11 costs in the Power Supply Adjustment ("PSA"). The Company also advocated for an
12 Environmental and Reliability Account mechanism that would allow recovery of the
13 carrying costs of environmental improvement projects and for projects relating to
14 generating plant capacity acquisitions or additions. Finally, the Company sought the
15 elimination of the 90/10 ratepayer/stockholder sharing mechanism in the PSA.

16
17 I give this background only to show that many aspects of the Settlement had a high
18 probability of outcome in a fully adjudicated proceeding and note that it is not the rate
19 increase that should be focused upon, but rather the other elements of the Settlement that
20 provide value to ratepayers. To illustrate this point, in its direct case RUCO presented a
21 much more balanced case where it would only allow a 10% return on equity, no increase
22 in base rates and rejection of most of the new adjuster mechanisms or changes to the old.

1 Most of the elements of RUCO's direct case have been incorporated into the Settlement
2 such as the no base rate increase and the 10% return on equity.
3

4 **Q. COULD YOU PLEASE SUMMARIZE THE KEY ELEMENTS OF THE**
5 **SETTLEMENT?**

6 A. From RUCO's perspective, there are five key terms of the Settlement:

- 7 1. the overall zero dollar base rate increase with a four year rate case stay out,
8 in which APS agrees not to raise base rates as a result of any new general rate case
9 filing until at least mid-2016;
- 10 2. a narrowly-tailored Lost Fixed Cost Recovery ("LFCR") mechanism that
11 supports energy efficiency ("EE") and distributed generation ("DG") at any level or
12 pace set by this Commission;
- 13 3. an opt-out rate design for residential customers who choose not to
14 participate in the LFCR which will also support EE and DG at the requisite
15 Commission standards;
- 16 4. a process for simplifying customers' bill format; and
- 17 5. elimination of the Company's proposed changes to the Transmission Cost
18 Adjustor, the withdrawal of the request to recover chemical costs through the Power
19 Supply Adjustor, the withdrawal of the request for the introduction of an
20 Environmental and Reliability Account
21

22
23 Section 2.1 of the Settlement states that APS agrees not to file its next general rate case
24 prior to May 31, 2015, and no new base rates resulting from APS's next general rate case
25 will be effective before July 1, 2016. This is a key element of the settlement as it
26 represents a four-year moratorium on rate cases where ratepayers will see no increase in

1 base rates, and it puts the onus on management to control operating expenses, minimize
2 capital expenditures, and improve the productivity of its work force.

3
4 In addition, Section 4.1 of the Settlement states that when new rates become effective,
5 customers will have on average a 0.0% bill impact or less. This zero percent or slightly
6 negative bill impact will be achieved by allowing the negative credit that exists in the
7 Company's PSA to continue until February 1, 2013, at which time it will reset (Id). The
8 actual rate impacts due to the Settlement's provisions for low-income customers and the
9 reset of the PSA and discussion of bill impacts will be discussed in more detail later in
10 my testimony.

11
12 **Q. COULD YOU PLEASE DISCUSS THE LOST FIXED COST RECOVERY**
13 **MECHANISM?**

14 A. The Settlement implements a Lost Fixed Cost Recovery ("LFCR") mechanism in Section
15 9. This portion of the Settlement addresses the interest in directing EE and DG policy.
16 The LFCR shall recover a portion of distribution and transmission costs when sales levels
17 are reduced by EE and DG. It shall not recover lost fixed costs attributable to other
18 potential factors, such as weather or general economic conditions. To minimize its
19 impact, the amount of the LFCR mechanism excludes the portion of distribution and
20 transmission costs recovered through the Basic Service Charge ("BSC") and fifty (50)
21 percent of such costs recovered through non-generation/non-transmission demand
22 charges. The LFCR shall be adjusted annually to account for the unrecovered costs, as

1 demonstrated, and is subject to a 1% year over year cap. Any amount in excess of the
2 cap will be deferred.

3
4 Section 9.8 of the Settlement states that residential customers shall have the ability to opt
5 out of the LFCR by electing to pay a slightly higher BSC. The purpose of this opt-out
6 rate is to replicate, on average, the effects of the LFCR, and allow customers who are not
7 comfortable with the LFCR mechanism the option to opt-out. Section 9.9 of the
8 Settlement states that APS shall seek stakeholder input regarding and subsequently the
9 development of a customer outreach program to inform and educate customers about both
10 the LFCR and voluntary opt-out rates and shall implement this outreach program.

11
12 The LFCR is an alternative to the full decoupling mechanism that the Company requested
13 in its original case. In its direct case, RUCO stated that it was inappropriate to implement
14 a decoupling mechanism during this period of economic uncertainty and financial stress
15 for ratepayers. RUCO supports the LFCR as presented in the Settlement because
16 customers who do not want it have the option of another rate design. The ability to opt-
17 out of the LFCR is important as it provides the Company the financial protection for lost
18 sales from EE and DG but it also gives ratepayers the right to vote on these public policy
19 programs advocated by some groups. Similarly, the cap on the LFCR minimizes to a
20 reasonable degree the financial impact of the LFCR and which I note has been the
21 downfall of some decoupling mechanisms in the past.

1 **Q. COULD YOU PLEASE DISCUSS THE RESOLUTION OF BILL**
2 **PRESENTATION?**

3 A. Section 16.1 of the Settlement states that within 90 days following approval of the
4 Settlement, APS will initiate stakeholder meetings to address issues related to the APS
5 bill presentation with a goal of making the bill easier for customers to understand. The
6 Settlement also states that APS will thereafter file an application with the Commission
7 for any authorization needed to modify its bill presentation. Such application shall
8 explain how the APS bill presentation proposal reflects the input of stakeholders during
9 the stakeholder meeting process.

10
11 The current APS bill is unbundled with rates for specific services such as billing,
12 metering, system benefits, distribution delivery, transmission, and generation capacity
13 and energy. During the course of the proceeding, it was found that this makes for a fairly
14 long and complicated bill that can sometimes cause customer complaints. To address this
15 issue, in direct testimony the Company proposed to simplify the customers' bill by
16 providing the bundled charges and related information. RUCO supported any efforts
17 that will result in bill simplification, and it is my experience that customers are generally
18 wary of adjustor mechanisms and surcharges. The parties were unable to resolve all
19 issues relating to bill simplification during the proceeding and the initiation of
20 stakeholder meetings should provide the venue to resolve this important issue.

1 **Q. WHAT ARE SOME OTHER IMPORTANT ELEMENTS OF THE**
2 **SETTLEMENT?**

3 A. Section 7.2 states that APS will withdraw its request to recover through the PSA the cost
4 of chemicals required for environmental compliance at APS's power plants, and APS
5 shall not raise this request before its next general rate case. As I discussed in my direct
6 testimony, the chemical cost is a cost of doing business, just like thousands of other
7 expense items that the Company has to deal with. There is nothing unique about
8 chemical costs and the elimination of this cost is appropriate.

9
10 Section 11.1 of the Settlement provides that APS shall withdraw its request for approval
11 of the proposed Environmental and Reliability Account ("ERA") mechanism, and APS
12 shall not raise this request before its next general rate case. As originally proposed, the
13 ERA mechanism would allow recovery of the carrying costs of projects related to
14 environmental improvement or acquisition/additions of generating capacity. To qualify
15 for recovery under the ERA mechanism a project would have to be generation related and
16 it costs would exceed \$500,000. In its direct case, RUCO opposed the mechanism
17 because the threshold of \$500,000 as proposed by the Company is so low that it would
18 result in almost any project at a generation plant being qualified for cost recovery. In
19 effect, the proposed ERA mechanism was akin to a formula rate plan that would only
20 benefit shareholders. The Settlement properly excluded the mechanism.

1 Section 13.1 of the Settlement provides that the level of transmission costs presently in
2 APS's base rates will remain in base rates until further order of the Commission. The
3 Company had originally sought to have all transmission costs recovered through the
4 Transmission Cost Adjustor ("TCA"). In its direct case, RUCO recommended against
5 the full recovery in the TCA because RUCO believes that adjustor mechanisms are
6 unwarranted unless, among other things, the costs recovered through the adjustor are
7 highly volatile and beyond the Company's ability to control. RUCO does believe that the
8 Company had shown transmission costs to be highly volatile or beyond its control. The
9 Settlement properly excludes the mechanism.

10
11
12 Section 7.3 states that the 90/10 sharing provision in APS's PSA will be eliminated. In
13 its stead, to incent prudent fuel procurement and use, APS shall be subject to periodic
14 fuel audits. The first fuel audit shall be for 2014. I have been involved in incentive
15 power supply mechanisms for my whole thirty years career and in my experience have
16 learned that Utility's operate and maintain their low costs power plants (coal, hydro and
17 nuclear) at very high availability and capacity factors when they have a monetary stake in
18 their operation. As I stated in my direct testimony the PSA is a much better control for
19 the efforts on the Company's part on a day-to-day basis rather than some after the fact
20 prudence case. That said, this is just one element of the Settlement that must be weighed
21 against all others. On balance, I would not let my opposition to this one provision, while
22 important, hold up support of the Settlement.

1 **Q. COULD YOU PLEASE DSCUSS THE BILL IMPACTS RESULTING FROM THE**
2 **SETTLEMENT?**

3 A. Yes, as I mentioned previously, Section 4.1 of the Settlement states that when new rates
4 become effective, customers will have on average a 0.0% bill impact or less. For
5 residential customers this provision will result in a slight rate increase in base rates for
6 the non low-income residential customers, and a slight decrease in base rates for low-
7 income residential customers. The reason for this is that Section 14.2 of the Settlement
8 requires that low-income customers will have the PSA and Demand Side Management
9 Adjustor Mechanism applied to their bills. This provision has the effect of increasing
10 non low-income base rates and reducing low-income base rate, and can be best seen on
11 the Company's proof of revenue that supports the rates contained in the Settlement. I
12 have included the proof of revenue as an attachment to my testimony. I include this so
13 that the Commission has a full understanding of the rate impacts that result from the
14 Settlement.

15
16 Along these same lines, I would also like to point out that there are two other elements of
17 the Settlement that could cause rates to increase above the zero percent level. First, the
18 PSA is due to be reset in February 2013 (See Section 4.1). The Company has provided
19 rate impacts based on its forecast of changes to the PSA in a letter dated January 9, 2012
20 and is part of the record in this proceeding. The Company estimates that the PSA reset
21 will have the impact of increasing the average bill for a residential customer in February
22 2013 by 3.5%.

1 The second factor that could increase bills beyond December 31, 2012 (See Section 1.5)
2 reflects the fact that in Docket No. E-01345A-10-0474, APS has sought Commission
3 permission to pursue acquisition of Southern California Edison's ("SCE") current
4 ownership interest in Four Corners Units 4 and 5 and to retire Four Corners Units 1-3 (the
5 "proposed Four Corners transaction"). Pursuant to Section 10.2, the Settlement does in
6 fact state that upon execution of the Four Corners Transaction APS may within ten (10)
7 business days after any Closing Date but no later than December 31, 2013, file an
8 application with the Commission seeking to reflect in rates the rate base and expense
9 effects associated with the acquisition of SCE's share of Units 4 and 5, the rate base and
10 expense effects associated with the retirement of Units 1-3, and any cost deferral
11 authorized in Docket No. E-01345A-10-0474. In its January 9, 2012 letter to the
12 Commission, APS estimates that the Four Corners Transaction will increase the average
13 residential bill by an additional 3.2% beyond the 3.5% that it forecasts to occur due to the
14 PSA reset.

15
16 In summary, as shown in the January 9, 2012 letter to the Commission, APS forecasts
17 that because of the Settlement the average residential bill will increase from \$130.95 to
18 \$138.45 for an overall change of 5.7%. While I recognize the forecasting of fuel costs is
19 fraught with uncertainty and there is no certainty that the Four Corners Transaction will
20 take place, I do believe that the record in this case should be complete as to what the true
21 rate impacts could be. This is important in that the Commission has final approval of the

1 terms of the Settlement and can take steps to minimize what it perceives as undue rate
2 impacts resulting from the Settlement.

3

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes, it does.

6

7

ARIZONA PUBLIC SERVICE COMPANY
SUMMARY OF BASE REVENUES BY CUSTOMER CLASSIFICATION
PRESENT AND PROPOSED RATES
TEST YEAR ENDING DECEMBER 31, 2010 ADJUSTED

Line No.	(A) Customer Classification and Current Rate Designation	(B) Average Number of Customers	(C) Adjusted MWh Sales	(D) Average Annual kWh Usage per Customer [(C x 1000) / (E)]	(E) Base Revenues under Present Rates ¹ (\$000)	(F) Proposed Rate Designation	(G) Proposed Revenue		(H) Transmission Revenue ⁷ (\$000)	(I) Change - Base Rates		Line No.
							Base Revenues (\$000)	Revenue (\$000)		Amount (\$000) (I) - (E)	% (I) / (E)	
1	Residential											1
2	E-12	485,397	4,026,662	8,296	493,366	E-12	492,152	492,152	-	(1,214)	-0.25%	2
3	ET-1	293,620	4,344,033	14,795	480,986	ET-1	481,090	481,090	-	104	0.02%	3
4	ET-2	123,038	1,919,486	15,601	266,039	ET-2	266,172	266,172	-	133	0.05%	4
5	ECT-2	39,448	1,400,862	35,512	107,426	ECT-2	107,539	107,539	-	113	0.11%	5
6	ECT-1R	48,378	1,404,939	29,041	122,096	ECT-1R	122,201	122,201	-	105	0.09%	6
7	ET-SP	108	2,301	21,306	221	ET-SP	220	220	-	(1)	-0.45%	7
8	Total Residential	989,989	13,098,283	13,231	1,470,134	Total Residential	1,469,374	1,469,374	-	(760)	-0.05%	8
9	General Service											9
10	E-20	328	36,664	111,780	3,886	E-20	3,912	3,912	-	26	0.67%	10
11	E-30	4,644	6,349	1,367	1,406	E-30	1,407	1,407	-	1	0.07%	11
12	E-40	1			1	See note 9						12
13	E-32 XS	82,396	1,418,941	17,221	199,177	E-32 XS	203,014	203,014	-	3,837	1.93%	13
14	E-32 S	29,411	2,551,983	86,770	290,021	E-32 S	292,939	292,939	-	2,918	1.01%	14
15	E-32 M	4,425	3,279,542	741,139	317,315	E-32 M	317,809	317,809	-	494	0.16%	15
16	E-32 L	1,035	3,647,139	3,523,806	303,798	E-32 L	301,465	301,465	-	(2,333)	-0.77%	16
17	E-32 TOU XS	78	4,609	59,090	633	E-32 TOU XS	644	644	-	11	1.74%	17
18	E-32 TOU S	219	41,567	189,804	4,454	E-32 TOU S	4,484	4,484	-	30	0.67%	18
19	E-32 TOU M	73	69,937	958,041	6,385	E-32 TOU M	6,374	6,374	-	(11)	-0.17%	19
20	E-32 TOU L	47	295,614	6,289,660	22,917	E-32 TOU L	22,625	22,625	-	(292)	-1.27%	20
21	E-34	36	1,086,047	30,167,972	80,597	E-34	79,328	79,328	-	(1,269)	-1.57%	21
22	E-35	29	1,673,369	57,702,379	112,009	E-35	109,345	109,345	-	(2,564)	-2.38%	22
23	Total General Service	122,722	14,111,761	114,990	1,342,599	Total General Service	1,343,346	1,343,346	-	748	0.06%	23
24	Irrigation and Water Pumping	1,450	313,308	216,074	26,669	Irrigation and Water Pumping	26,681	26,681	-	12	0.04%	24
25	Outdoor Lighting											25
26	E-58	624	33,212	53,224	10,107	E-58	10,107	10,107	-	-	0.00%	26
27	E-59	293	93,502	319,119	9,701	E-59	9,701	9,701	-	-	0.00%	27
28	Contract 12	41	11,496	280,390	1,013	Contract 12	1,013	1,013	-	-	0.00%	28
29	E-67	181	3,432	18,961	178	E-67	178	178	-	-	0.00%	29
30	Total Outdoor Lighting	1,139	141,642	124,356	20,999	Total Outdoor Lighting	20,999	20,999	-	-	0.00%	30
31	Dusk to Dawn Lighting	See Note 5	24,613	See Note 5	8,457	Dusk to Dawn Lighting	8,457	8,457	-	-	0.00%	31
32	Total Sales to Ultimate Retail Customers	1,115,300	27,689,607	24,827	2,868,858		2,868,857	2,868,857	-	-	0.00%	32
33			See Note 10									33
34												34
35												35
36												36
37												37
38												38

NOTES TO SCHEDULE:

- Base Revenues under Present Rates reflect adjusted test year revenues based on rates established in Decision No. 71448.
- Share the Light Rate Schedules are included in Rate Schedule E-58.
- Rider rate schedules are included in the "Parent" rate schedules listed on schedule H-2 as applicable.
- Riders include: E-3, E-4, CPP-RES, CMPW-01, E-53, E-54, RSP, PPR, CPP-GS, Solar-2, Solar-3, GPS-1, GPS-2, GPS-3, GPS-4, EPR-2, EPR-3, EPR-4, EPR-5, and SC-S.
- Rate Schedule E-36 is not included as proposed price changes are market-related.
- Dusk to Dawn Lighting customers are included in residential and general service counts as this service is included on each customer's primary billing.
- Transmission revenues based on OATT charges effective during test year.
- Rate Schedules GS Schools M, GS-Schools L have no revenue or customers.
- Rate E-40 proposed revenue is reflected in E-32 M
- Excludes 144,149 MWh of revenue credits, total sales with revenue credits = 27,833,756 MWh

Supporting Schedules:

N/A